



Focus

Public Utility Tax Deductions for the Use of Reclaimed Water

Issue

Governor Gary Locke recently signed a major water bill passed by the 2001 Washington State Legislature. The new law promotes a healthy state economy while protecting and enhancing the state's water resources. The new law addresses several key areas in water resource management, including an incentive program to promote conservation and distribution of reclaimed water. Governor Locke signed the law on May 10, 2001. The tax deductions allowed under the new law expire on June 30, 2003.

Background

The Department of Revenue administers the Public Utility Tax (Chapter 82.16 RCW), which is levied on gross income of public and privately owned utilities. Utilities that gross \$24,000 or more annually have to file a combined excise tax return and are subject to the State Public Utility Tax rate on the total gross income. The incentive program created in ESHB 1832, Chapter 237, Laws of 2001, exempts 75 percent of the amounts received for reclaimed water services for commercial and industrial uses supplied by a holder of a reclaimed water permit under the Reclaimed Water Act (RCW 90.46.030).

The incentive program also allows reclaimed water utilities to deduct from gross income 75 percent of amounts expended (including staff time and all associated costs) to improve consumer's efficiency of water use or to otherwise reduce the use of water by the consumer. The expenditures must be included as elements within a state approved Water System Plan.

Eligible Measures to Exempt 75 percent of Gross Receipt

To obtain the deduction for the distribution of reclaimed water, the utility must have a permit to generate and distribute reclaimed water for commercial and industrial uses under RCW 90.46.030. The following are examples of commercial and industrial uses that would be included in a permit issued under the RCW 90.46.030:

- Decorative fountains;
- Flushing of sanitary sewers;
- Street, yard, lot, and sidewalk cleaning;
- Dust control;
- Construction uses for solid compaction or consolidation of fill materials;
- Washing aggregate and making concrete;
- Fire protection and fire fighting;
- Toilet flushing;
- Industrial cooling, boiler feed, or process water;
- Fish hatchery basins; and
- Irrigation at commercial or industrial sites.



Eligible Conservation Incentive Deduction Measures

Utilities can also provide measures that would improve consumer efficiency or otherwise reduce consumers' use of water. Expenditures to improve consumers' efficiency are eligible provided that the expenditures are for measures in the conservation plan of the Water System Plan.

Examples of eligible measures are:

- Measures that encourage the use of reclaimed water in lieu of drinking water for landscape or crop irrigation, groundwater recharge or streamflow augmentation to offset drinking use.
- Measures that encourage the use of moisture sensors, flow timers, low-volume sprinklers, or drip irrigation for efficiencies in reclaimed water use.

To Claim Benefits

The Department of Revenue (DOR) has included two line items in the combined excise tax return form to enable systems to claim these tax benefits beginning with the July 2001 return. In order to claim the deductions, systems must meet the eligibility criteria (i.e., claim deductions for expenditures made in accordance with the conservation plan within the water system plan, and in the case of a seller of reclaimed water, hold a permit under RCW 90.46.030). Water systems must maintain their eligibility information in their files.

For more information

If you have a question about the tax incentive contact the Department of Revenue at (800) 647-7706.

For information about reclaimed water, please contact:

Kathy Cupps, Department of Ecology, (360) 407-6452, or kcup461@ecy.wa.gov

For a copy of the Department of Health Fact sheet, "Public Utility Tax Deductions for Water Conservation Measures" call (800) 521-0323 or visit the agency's website at

http://www.doh.wa.gov/ehp/dw/our_main_pages/alpha1.htm